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ABSTRACT

This document discusses the Small Business Development Center initiative which addresses the needs of California businesses to grow through the delivery of one-on-one counseling, seminars, workshops, conferences, and other technical activities. The community colleges host 21 full centers. Some of the major objectives of the initiative are the following: (1) create and retain jobs; (2) create investment in companies to stimulate economic investment; and (3) increase business sales thereby increasing economic impacts on regions served. Some of the strengths of the initiatives are that it actively promotes to the small business community college programs and services, offering diverse services to colleges, and partnering with local organizations including colleges, chambers of commerce, cities, economic development organizations and private business. There are four systematic barriers to the success of the initiative: (1) communication and leadership barriers between the three main stakeholders; (2) different funding formulas have created problems so that funds have not been distributed to rural centers; (3) limited funding; and (4) demands for services exceed center resources and it does not seem that this situation will change in the near future. The document also addresses the emerging opportunities for this initiative, whether the initiative could be sustained without categorical funding, and how additional funds would be used if they were made available. (MZ)

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Economic Development Network

ED net

California Community Colleges

California Community Colleges
Economic Development Program

Operational Initiative Review Report of:

The Small Business Development Center Initiative
January 2000

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Introduction

This is the only initiative that the community colleges do not lead. California Technology, Trade, and Commerce Agency (CTTCA) over sees the day-to-day operation of the centers and the U.S. Small Business Administration (SBA) administers regionally their money and their expectations for the centers in the program that are often mandated at the federal and local level. The community college system has little input into the program even though in 2001 we have a $2.5 million dollar investment in the program plus local cash match of $1,305,982 and in-kind match of $341,465.

This report will seem very positive most of the time, but also recognizes substantial barriers to our effective participation in the statewide program. One part of this review is of the excellent work and outcomes of our centers and the need for additional funding for the rural centers, expansion into more services to New Economy companies for all centers and funding for three of our centers which have no Chancellor's Office funding. The other part of this report speaks to communication issues and unilateral CTTCA decisions affecting funding and operations of our centers with out any communication with our centers, their college administrators, the statewide initiative director, or the Chancellors office. There is a definite need to review our participation in the program with CTTCA, to try and resolve these issues and to seek a greater role in shepherding our investment and centers. This will be addressed in the "barriers" section of this report.

I. Initiative Purpose

The purpose of the Small Business Development Center (SBDC) initiative is to grow California business through the delivery of one-on-one counseling, seminars, workshops, conferences, and other technical activities that contribute to the achievement of the success of existing business and foster the growth of new business and jobs. Key small business services are provided in every county in the state. Small business services include management, marketing, financing, accounting, strategic planning, regulation, taxation, capital formation, procurement, human resource management, production, operations, agribusiness, international trade, computer applications, limited business law assistance, office automation, site selection, technology consulting, and many more areas of small business assistance. The community colleges host twenty-one of the thirty-one full centers. There are also satellites and outreach locations.

The essence of the American economic system of free enterprise is small business. It is essential that we preserve the expansion and competition of small business to guarantee a healthy, growing economy for our state.

II. Initiative Objectives:

The strategic plan objectives address the intent and objectives of the Community College Economic Development Program (ED>Net), California Technology, Trade, and

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Commerce Agency (CTTCA), and the U. S. Small Business Administration (SBA). Recognizing the need for collaboration among partners, the SBDC Initiative adopted the strategic plan/work plan of the statewide SBDC program for three years beginning in 1999. The over arching objectives are:

- Create and retain jobs through business management and technical assistance.
- Create investment in companies to stimulate economic development.
- Increase business sales that have an economic impact on the region.
- Increase regional economic development by facilitating regional economic development collaboratives.
- Reach and serve disadvantaged business owners and managers.
- Leverage the investment of the Chancellor's Office of the California Community Colleges through active recruitment of program investors and partners.

Progress Made in Meeting the Strategic Plan Objectives

Please note that this initiative collects data on both a calendar year basis and a fiscal basis. This chart is based on a calendar year in order to provide the most recent data for the twenty-one centers.

Objectives	Activity	Status 1/00 - 12/00 Last Quarter Projected
Create and retain jobs	Collect data on client job creation and retention through CATS (data collection system)	1,348 jobs created and retained
Create investment in companies to stimulate economic investment	Collect data on loans and other investment procured for client businesses through CATS	$40,282,212 in loans and equity financing
Increase business sales thereby increasing economic impact on regions served	Collect sales data through CATS	$17,979,084 in sales from clients served
Facilitate regional economic development collaboratives	Number of regional partnerships formed in providing small business assistance	235 unduplicated partnerships
Assist disadvantaged business owners and managers	Data on assistance collected through CATS	Asian 778 Black 1,326 Hispanic 2,001 Native American 199 Pacific Islander 40
Leverage Chancellor's program dollars through investing partners at state and local level	Calculate ratio of Chancellor's investment to investment of other partners-federal, state, and local	For every $1.25 of Chancellor's money invested, an additional $3.15 is received from other investors in the program

The SBDC Initiative services are expanding due to a number of factors. The most significant are the increase in new businesses in general, increased marketing efforts by the centers about their services, and the rapid growth of the New Economy.

What are the Initiative Strengths?

The Small Business Development Centers are facilitative and customer-driven, and a key economic resource in their local communities. They are flexible and agile offering business training tailored to client needs. There are many strengths that make the centers strong economic development entities that contribute to their small business community, local colleges, and economic regions. These strengths include:

1. Providing a direct line to the small business community for local colleges, regional consortia, and other economic development organizations. The SBDC generate good will for the sponsoring college.
2. Actively promoting to the small business community college programs and services.
3. Providing critical and affordable training and educational services to small business employers resulting in increased community economic development.
4. Providing positive measurable economic impact both regionally and statewide.
5. Offering diverse services that also help the colleges achieve their economic development mission.
6. Partnering with local organizations including colleges, chambers of commerce, cities, economic development organizations and private business.
7. Providing a strong network of resources including printed library materials, multimedia and online resources, and expert consultants that are shared with the colleges.
8. Providing unique access to hard to serve businesses including minority- and women-owned businesses.
9. Responding to the business needs of emerging industry clusters in the new economy.
10. Partnering at the state level among Chancellor's Office California Community Colleges, California Trade and Commerce Agency, and the U. S. Small Business Administration.

What are the Systemic Barriers to Success?

There are four major systemic barriers:

1. With three stakeholders as lead partners, the challenge becomes providing consistent leadership and policy direction to the twenty-one community college-based SBDCs. There are often conflicts in due dates, multiple reporting, and multiple audits. The stakeholders generally have different policy directions they would like to see implemented by the SBDCs. This requires ongoing close coordination and communication among the stakeholders. Communication and coordination by CTTCA to the Chancellor's Office, to the initiative director, and to

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our centers and their districts and colleges must be improved. For example, funding decisions are made which impact college-based centers and we are not consulted when it involves SBA funds or CTTCA funds. Orange County SBDC had its expected funding cut by 35% for 2001. The Chancellor's Office, the center, and the SBDC statewide director were not notified about this significant reduction in budget. The center manager found out when the contract was received in the mail. No explanation or criteria for fund reduction was given. There was no written communication at all. This center and its district have never received anything in writing about this center. It is respectfully requested that the ED>Net Executive Committee review this loss of funding immediately.

2. The difference in the CTTCA funding formula (Which is population based) and the Chancellor's Office belief that each center should have a base of $250,000, has kept us from distributing funds to our rural centers. An example is the Napa SBDC, which has a total operating budget of only $216,342. It also had federal money pulled out years ago by CTTCA, but still has $36,000 of federal money that would be pulled if we try to augment the center budget again.

3. When the Chancellor's Office apportions more money for the college-based SBDCs, CTTCA generally takes out the same amount of funding in federal and/or CTTCA dollars from each center that receives additional community college funding. Also, if a center writes a successful grant proposal, the federal and/or CTTCA funding has also been reduced as was done with the Solano SBDC.

4. Demand for services exceeds center resources and with the growth of the economy this situation will continue. In the past, a good economy meant some entrepreneurs would become employees of other businesses. But this is not holding true, because areas of the state (especially rural areas) are still plagued by unemployment. Starting a business is more of an acceptable risk when unemployed. At the same time, the New Economy is providing unprecedented opportunities for small business startups, especially in the area of new technology goods and services.

There is a definite need to review our partnership with CTTCA and to seek policy language that would define our expectations for this partnership commensurate with our investment at both the state and local level.

What are the Weaknesses of the Present Initiative? What Plans are Being Developed or are in Place to Address/Improve Them?

Currently, centers are at maximum capacity for providing one-on-one counseling and other specialized services. The entire 2001 SBDC budget for the 31 centers is $15,930,053. Based on this figure, the average funding for all centers should be $513,873. Our twenty-one centers received a total of $7,646,862 in SBA funding, $3,223,090 in CTTCA funds, and $2,529,900 in community college funds. The total funding for the twenty-one centers is $8,788,458 and the average funding for these centers is $418,498. Community colleges host 68% of all centers and receive 55% of the

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total program funding. This is due in part to the fact that we host more of the rural/suburban centers, which receive less money. Additionally, three newer community college-based SBDCs (Cuesta College, Mira Costa College, and Rio Hondo College) have no community college funding whatsoever. They do receive SBA and CTTCA funds and they are full centers and provide all services. The SBDC initiative recommends consideration of additional funds for the SBDCs based on the above, and to accomplish the new strategic directions addressed below. However, before plans can be developed, the barriers delineated above outline significant issues that need to be addressed at a policy level.

Are There New Strategic Directions or Emerging Opportunities for This Initiative? What New Objectives are needed to Meet These New Opportunities?

Technology is an emerging new strategic direction for the Small Business Development Centers. In developing a profile of SBDC technology assistance, broad categories were pulled from the CY 2001 scopes of work (projected activities) that provide a consistent level of detail across all centers. This information was obtained from CTTCA. The information may omit certain key strategies in this rapidly evolving industry cluster. Based on a review of these contracts, technology was already represented in six key areas:

1. Consulting and training for high technology businesses
2. E-commerce and computer workshops
3. Manufacturing technical assistance
4. Small Business Innovation and Research (SBIR) training and consulting
5. Intellectual property
6. Incubator client assistance

In CY 2001, every center will provide some degree of training and consulting to assist businesses in using technology, such as e-commerce, computers, personal digital assistants, and more. In CY 2000 and 2001, the SBDC Program funded regional technology solutions demonstrations.

The SBDC Program has seen a dramatic increase in the number of technology clients based on the SBDC tracking system. In 1999 a total of 151 technology clients were served, representing 1% of total clients served. In 2000, the number had risen to 5% of total clients for the first six months, but only 22% of the database had SIC codes entered, so it is understated. Currently, 9.6% of the program's clients are technology-based.

The SBDC future in providing services to technology companies looks promising. Trends over a two-year period reflect a rapidly increasing base of technology clients. Because the number of technology clients is increasing, a long-term policy objective is needed to deliver services to new technology small business enterprises.

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Additional funding is also needed for rural small business and in areas of high unemployment where new businesses will stimulate the local economy and the number of jobs available.

New objectives needed to meet the new opportunities above include:

1. To provide additional business assistance to technology companies.
2. Seek additional funding for more consultants, and increase the number of counseling hours available to all clients.
3. To increase ability of centers to serve technology-based clients.
4. To increase the number of services provided to rural and high unemployment areas.
5. To provide funding to three new centers without Chancellor's office funding.

How could this Initiative be Sustained Without Categorical Funding?

This initiative provides $2.5 million in dollar-for-two dollar match to federal dollars that come into the state of California for the SBDC program. If Chancellor's office funding were withdrawn, it would mean a loss of $5 million to the statewide SBDC program. Federal and state political pressure could also be brought to bear on the withdrawal of categorical funds. Small business is the major provider of economic growth and jobs to our state's economy, and makes up the majority of businesses in emerging industries. It is essential that this collaboration with the community colleges, CTCA, and SBA continue (with an expanded role for community college oversight and participation in decisions affecting our centers) to support the start-up, expansion, and retention of California business.

If Additional Funds Were Available, How Might They Be Used, and What Improvements in Products and/or Services Would You Envision?

The request for additional funds include:

1. Increased services to technology companies where global markets and job growth are rapidly increasing.
2. Increased services in rural areas of high unemployment to provide more business start -up assistance, which will increase employment.
3. Fund three new centers that currently have no Chancellor's Office funding.
4. Expand general one-on-one counseling in all centers.

Below are specific requests for additional funding with additional detail on the use of funds.

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Table 1
Increase Services to Technology Companies

Activity	Centers Participating	Proposed Funding
Hire additional technology- trained consultants to advise companies	N. San Diego County Orange County San Francisco Silicon Valley Southwestern College East Bay E. L. A. County Greater Sacramento	$70 x 125 hours = $8,750 per center = $70,000
Additional technology-trained consultants to advise companies	13 other centers	$70 x 50 hours = $3,500 per center = $45,550
Total Dollars Requested	1,650 hours of tech services	**$115,550**

Table 2
Increase Consulting and Training in Rural and High Unemployment Areas

Activity	No. of Centers	Proposed Funding
Additional Consultants for Rural and High Unemployment	San Joaquin Delta College Butte College Weill Institute Southwestern College Yuba College	$45 x 75 hours = $3,375 $3,375 x 5= $16,875
Total Dollars Requested	375 hours of rural consulting	**$16,875**

Table 3
Fund Three Newer Centers Which Currently Do Not Have Chancellor's Office Funding

Activity	Centers Participating	Proposed Funding
Fund three newest centers with no Chancellor S	Mira Costa College Rio Hondo College Cuesta College	$140,550 x 3 = $436,650
Total Dollars Requested	Additional services	**$436, 650**

Table 4
Expand General One-On-One Counseling at All Centers

Activity	Centers Participating	Proposed Funding
One-on-One	21	$40 x 75hrs = $3000 x 21 = $63,000
Total Dollars Requested	1,575 hours additional counseling	**$63,000**

The above projects can be funded as a whole or funded separately. The total for the four projects is **$632,075 which if leveraged would increase the federal contribution to the entire program by $1.2 million.**

III. State-Wide Impact of the Initiative

Not required for this report. See *Small Business Development Centers: Assisting the Heart of California's Economy*, September 1999, page 3.

IV. Regional Impact and Coordination

Not required for this report. See *Small Business Development Centers: Assisting the Heart of California's Economy*, September 1999, page 8.

V. Program Coordination

Not required for this report. See *Small Business Development Centers: Assisting the Heart of California's Economy*, September 1999, page 17.

VI. Data Review and Recommendations

Summative Data Review

Please note that the numbers for the last 4 months of 2000 were projected based on the first eight months.

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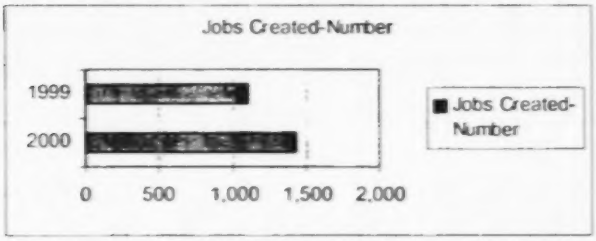
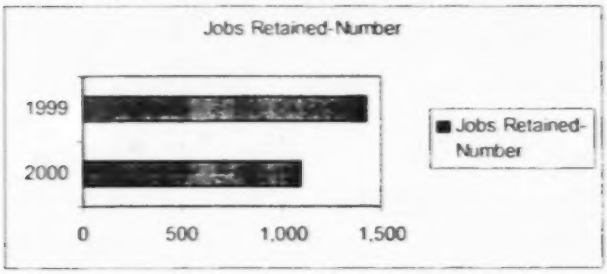
Chart 1
Number of Jobs Created Has Increased



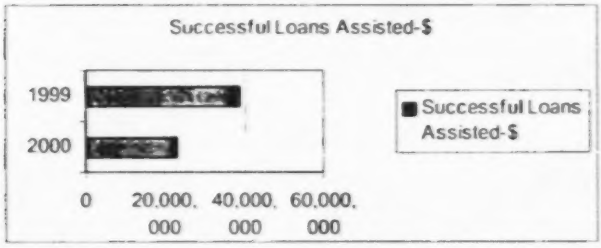
1,107 jobs created in 1999, and 1434 jobs created in 2000

Chart 2
Number of jobs retained is lower



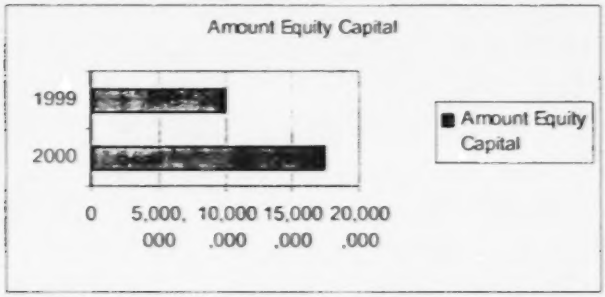
1,424 jobs retained in 1999, and 1,096 jobs retained in 2000

Chart 3
Value of Loans Assisted Decreases



$38,542,800 in loans in 1999, and $22,922,479 in loans in 2000

Chart 4
Other Types of Financing Assisted Increases



$10,086,390 of Equity Capital in 1999, and $17,366,733 in 2000

What Does the Above Summative Data Indicate about the Products and Services being provided? Synthesize and Analyze the Above Measures of Outcome and Output

The above bar charts show that jobs-created has increased by approximately 30% in 2000. This is to be expected in an economy that is "hot" in many parts of the state. But jobs-retained is down slightly, because fewer companies are experiencing financial and operational problems. Loans assisted have dropped by 41% in 2000. This outcome may be down due to the healthier economy and possibly an increase in equity capital available. Equity capital represents capitalization in ways other than loans. This category would include venture capital (especially for technology companies), non-conventional financing such as city loans (Community Development Block grants), revolving loans funds from economic development corporations, and cash invested in the business by the owner. Equity capital assisted is up by 72% in 2000. This may be due to the number of technology companies provided with assistance. Many SBDCs do not enter their final outcomes until the end of the fourth quarter, so the current projections shown for 2000 are very conservative.

Formative Data Review

Table 5
SBDC Performance on Data Elements, 1998-1999
Compared to 1999-2000 Community College Fiscal Year Data Base.

Data Element	Units	1998-1999 Initiative Total	1999-2000 Initiative Total	Percent Change
Number of contact hours of technical assistance service provided	Contact hours[1]	281	550	95.7%

[1] Contact hours are the number of participants times the number of hours in training and counseling

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Data Element	Units	1998-1999 Initiative Total	1999-2000 Initiative Total	Percent Change
Number of contact hours of training provided	Contact hours	119,728	334,810	79.6%
Number of incumbent workers served	Individuals	10,385	10,431	4.4%
Number of faculty receiving in-service training	Individuals	958	1,709	78.4%
Number of strategic partnerships formed (unduplicated count)	Businesses/ CBO/Gov.	136	212	55.9%

What Does the Above Formative Data Indicate about the Products and Services being provided? Synthesize and Analyze the Above Measures of Outcome and Output and Provide Several Key Recommendations that Follow From Your Analysis

The formative data in table 5 show the multitude of clients that are assisted by the SBDCs. It does not include the counts for the three centers that are not funded by the Chancellor's Office and who therefore do not report to the Chancellor's Office. The data show a 179.8% increase in the number of contact hours of training provided. Training represents all training and one-on-one counseling sessions at the centers. A goal of the program is to do more in depth counseling with businesses for greater economic impact. The centers are also providing more services to more businesses. Start-ups benefit from first attending training programs before receiving the more costly counseling. A business plan is required before a counselor is seen.

There is also strong growth in the number of faculty receiving in-service training and in the number of contact hours of technical assistance service provided even though the SBDC national and state program do not recognize these categories as functions of SBDCs.

The major strength of the SBDC Program is the ability to partner with regional state and national partners. This trend of including more partners and leveraging resources benefits not only our clients but also our community college system. Because this program deals primarily with small business owners and managers, incumbent workers are not emphasized. Yet, there is still a 4.4% increase in the number of incumbent workers served.

The services of the SBDC Program have direct economic benefits. We can protect jobs in small businesses by helping them compete in the New Economy. More than 30% of all jobs are in a state of "churn"-either being created or dying as a result of new technology or competition. Through counseling and training small businesses we can help make the transitions smoother. Based on the analysis presented in this paper it is recognized that the Small Business Development Center Initiative needs increased funding based on the

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new strategic direction of serving technology small businesses. Additional funding is also needed for rural centers for more counseling due to high unemployment and higher costs associated with helping rural businesses, such as travel expenses and time for circuit riders. As in the past, initial funding should be distributed to the three new centers currently lacking Chancellor's Office funds so that we have "owner equity" in these centers.

It is recognized that this request for funds could be contingent on resolving the issues and barriers mentioned in this report.

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